

ACHIEVEMENT PREPARATORY ACADEMY, INC.

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2015 AND 2014**

TABLE OF CONTENTS

	<u>Page No</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5 - 6
Statements of Functional Expenses	7 - 8
Statements of Cash Flows	9
Notes to the Financial Statements	10 - 17
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 - 19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	20 - 21
Schedule of Expenditures of Federal Awards	22
Notes to the Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24 - 25



Independent Auditor's Report

The Board of Trustees
Achievement Preparatory Academy, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Achievement Preparatory Academy, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Achievement Preparatory Academy, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of June 30, 2014, were audited by McQuade Brennan, LLP, who merged with Jones, Maresca & McQuade, P.A. as of February 1, 2015, and whose report dated October 31, 2014, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part

Achievement Preparatory Academy, Inc.
Independent Auditor's Report
Page 3

of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Jane Marston & McQuade PA

Washington, DC
October 21, 2015

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,950,140	\$ 1,687,221
Grants receivable	125,299	183,735
Accounts receivable	10,384	4,423
Prepaid expenses	23,340	39,715
Total current assets	4,109,163	1,915,094
PROPERTY AND EQUIPMENT		
Furniture and equipment	1,001,789	876,289
Leasehold improvements	190,799	190,799
Construction in progress	6,447,198	-
Less: accumulated depreciation	(815,325)	(516,307)
Property and equipment, net	6,824,461	550,781
OTHER ASSETS		
Security deposits	5,000	5,000
Total other assets	5,000	5,000
TOTAL ASSETS	\$ 10,938,624	\$ 2,470,875
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 2,710,505	\$ 127,018
Accrued expenses	133,089	136,291
Deferred revenue	38,759	178,581
Accrued interest payable	32,967	-
Deferred rent and lease incentives	-	118,755
Total current liabilities	2,915,320	560,645
NONCURRENT LIABILITIES		
Notes payable	4,200,000	-
Total noncurrent liabilities	4,200,000	-
TOTAL LIABILITIES	7,115,320	560,645
NET ASSETS		
Unrestricted	3,700,304	1,784,230
Temporarily restricted	123,000	126,000
Total net assets	3,823,304	1,910,230
TOTAL LIABILITIES AND NET ASSETS	\$ 10,938,624	\$ 2,470,875

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 8,429,607	\$ -	\$ 8,429,607
Per pupil facility allowance	1,990,656	-	1,990,656
Federal entitlements and grants	1,207,248	-	1,207,248
Other grants and contributions	777,610	-	777,610
Activity fee	47,535	-	47,535
Interest income	8,459	-	8,459
Other income	5,573	-	5,573
Net assets released from restrictions	<u>3,000</u>	<u>(3,000)</u>	<u>-</u>
Total revenue and support	<u>12,469,688</u>	<u>(3,000)</u>	<u>12,466,688</u>
EXPENSES			
Program services	8,758,078	-	8,758,078
Management and general	1,785,197	-	1,785,197
Fundraising	<u>10,339</u>	<u>-</u>	<u>10,339</u>
Total expenses	<u>10,553,614</u>	<u>-</u>	<u>10,553,614</u>
CHANGE IN NET ASSETS	1,916,074	(3,000)	1,913,074
NET ASSETS, beginning of year	<u>1,784,230</u>	<u>126,000</u>	<u>1,910,230</u>
NET ASSETS, end of year	<u>\$ 3,700,304</u>	<u>\$ 123,000</u>	<u>\$ 3,823,304</u>

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(continued)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Per pupil appropriations	\$ 7,153,143	\$ -	\$ 7,153,143
Per pupil facility allowance	1,845,000	-	1,845,000
Federal entitlements and grants	830,560	-	830,560
Other grants and contributions	234,486	-	234,486
Activity fee	45,784	-	45,784
Interest income	5,401	-	5,401
Other income	4,275	-	4,275
Net assets released from restrictions	4,000	(4,000)	-
Total revenue and support	<u>10,122,649</u>	<u>(4,000)</u>	<u>10,118,649</u>
EXPENSES			
Program services	8,510,899	-	8,510,899
Management and general	1,387,148	-	1,387,148
Fundraising	2,149	-	2,149
Total expenses	<u>9,900,196</u>	<u>-</u>	<u>9,900,196</u>
CHANGE IN NET ASSETS	222,453	(4,000)	218,453
NET ASSETS, beginning of year	<u>1,561,777</u>	<u>130,000</u>	<u>1,691,777</u>
NET ASSETS, end of year	<u>\$ 1,784,230</u>	<u>\$ 126,000</u>	<u>\$ 1,910,230</u>

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Services	Supporting Services		Total
		and General	Fundraising	
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 5,313,473	\$ 1,037,959	\$ 9,000	\$ 6,360,432
Employee benefits	268,377	51,120	-	319,497
Payroll taxes	418,838	77,590	1,174	497,602
Professional development	128,483	-	-	128,483
Total personnel, salaries and benefits	<u>6,129,171</u>	<u>1,166,669</u>	<u>10,174</u>	<u>7,306,014</u>
DIRECT STUDENT COSTS				
Supplies and materials	84,602	-	-	84,602
Library and media center materials	51	-	-	51
Contracted student services	255,983	-	-	255,983
Textbooks	5,940	-	-	5,940
Student assessments	83,967	-	-	83,967
Other student costs	104,919	-	-	104,919
Total direct student costs	<u>535,462</u>	<u>-</u>	<u>-</u>	<u>535,462</u>
OCCUPANCY EXPENSES				
Rent	970,398	242,599	-	1,212,997
Maintenance and repairs	2,440	610	-	3,050
Janitorial services	3,452	863	-	4,315
Contracted building services	52,061	13,015	-	65,076
Total occupancy expenses	<u>1,028,351</u>	<u>257,087</u>	<u>-</u>	<u>1,285,438</u>
OFFICE EXPENSES				
Office supplies and materials	30,101	7,525	-	37,626
Equipment rental	112,097	28,024	-	140,121
Telecommunications	7,408	1,852	-	9,260
Printing and publications	2,168	542	-	2,710
Postage and shipping	1,087	272	-	1,359
Total office expenses	<u>152,861</u>	<u>38,215</u>	<u>-</u>	<u>191,076</u>
GENERAL EXPENSES				
Insurance	37,256	9,314	-	46,570
Travel	21,202	-	-	21,202
Administration fee	-	117,206	-	117,206
Accounting, auditing and payroll	-	103,728	-	103,728
Legal fees	156,354	-	-	156,354
Depreciation	239,214	59,804	-	299,018
Food service/catering	324,734	-	-	324,734
Other general expense	133,473	33,174	165	166,812
Total general expenses	<u>912,233</u>	<u>323,226</u>	<u>165</u>	<u>1,235,624</u>
Total expenses	<u>\$ 8,758,078</u>	<u>\$ 1,785,197</u>	<u>\$ 10,339</u>	<u>\$ 10,553,614</u>

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014
(continued)

	Program Services	Management and General	Fundraising	Total
PERSONNEL, SALARIES AND BENEFITS				
Salaries	\$ 5,166,832	\$ 772,486	\$ -	\$ 5,939,318
Employee benefits	230,962	34,999	-	265,961
Payroll taxes	432,303	65,511	-	497,814
Professional development	-	121,264	-	121,264
Total personnel, salaries and benefits	<u>5,830,097</u>	<u>994,260</u>	-	<u>6,824,357</u>
DIRECT STUDENT COSTS				
Supplies and materials	104,552	-	-	104,552
Library and media center materials	2,426	-	-	2,426
Contracted student services	335,143	-	-	335,143
Textbooks	53,487	-	-	53,487
Student assessments	56,068	-	-	56,068
Other student costs	122,401	-	-	122,401
Total direct student costs	<u>674,077</u>	-	-	<u>674,077</u>
OCCUPANCY EXPENSES				
Rent	936,317	234,079	-	1,170,396
Maintenance and repairs	5,809	1,452	-	7,261
Janitorial services	3,081	770	-	3,851
Contracted building services	24,284	6,071	-	30,355
Total occupancy expenses	<u>969,491</u>	<u>242,372</u>	-	<u>1,211,863</u>
OFFICE EXPENSES				
Office supplies and materials	64,250	16,063	-	80,313
Equipment rental	129,384	-	-	129,384
Telecommunications	9,730	2,433	-	12,163
Printing and publications	503	126	-	629
Postage and shipping	1,384	345	-	1,729
Total office expenses	<u>205,251</u>	<u>18,967</u>	-	<u>224,218</u>
GENERAL EXPENSES				
Insurance	21,512	5,378	-	26,890
Travel	4,844	-	-	4,844
Administration fee	-	49,044	-	49,044
Accounting, auditing and payroll	88,693	-	-	88,693
Legal fees	107,391	3,600	-	110,991
Depreciation	202,272	50,568	-	252,840
Food service/catering	314,690	-	-	314,690
Other general expense	92,581	22,959	2,149	117,689
Total general expenses	<u>831,983</u>	<u>131,549</u>	<u>2,149</u>	<u>965,681</u>
Total expenses	<u>\$ 8,510,899</u>	<u>\$ 1,387,148</u>	<u>\$ 2,149</u>	<u>\$ 9,900,196</u>

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,913,074	\$ 218,453
Adjustments to reconcile change in net assets provided by (used in) operating activities:		
Depreciation	299,018	252,840
Deferred rent and lease incentives	(118,755)	118,755
(Increase) decrease in assets:		
Grants receivable	58,436	81,091
Accounts receivable	(5,961)	-
Prepaid expenses	16,375	(33,330)
Increase (decrease) in liabilities:		
Accounts payable	2,583,487	54,105
Accrued expenses	(3,202)	93,509
Accrued interest payable	32,967	-
Deferred revenue	(139,822)	177,062
Net cash provided by operating activities	4,635,617	962,485
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,572,698)	(400,169)
Net cash used in investing activities	(6,572,698)	(400,169)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on note payable	4,200,000	-
Net cash provided by financing activities	4,200,000	-
 NET INCREASE IN CASH AND CASH EQUIVALENTS	2,262,919	562,316
 CASH AND CASH EQUIVALENTS, beginning of year	1,687,221	1,124,905
 CASH AND CASH EQUIVALENTS, end of year	\$ 3,950,140	\$ 1,687,221

See independent auditor's report and accompanying notes to the financial statements.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE A – ORGANIZATION AND PURPOSE

Achievement Preparatory Academy, Inc. (the “School”) was incorporated in January 2007 as a college preparatory public charter school located in Washington, DC. The School’s mission is to prepare students to excel as high-achieving scholars and leaders in high school, college, and beyond. Critical to School’s mission is also the idea of developing and fostering a strong character in its scholars. Daily, scholars focus on the development and practice of the School’s DREAM values (Determination, Respect, Enthusiasm, Accountability, and Mastery).

At Achievement Preparatory Academy, we believe:

- All students, regardless of race or socio-economic status, deserve a top-quality, rigorous college-preparatory education.
- When provided with a highly structured, disciplined, and supportive learning environment with quality, targeted instruction, all students will achieve the highest academic standards.
- Literacy is the most essential academic skill upon which the majority of all future skill and knowledge acquisition is based.

As a DC public charter school, the School has a guaranteed funding stream from the District of Columbia (uniform per student funding) and the U.S. federal government (federal formula grants for education and other programs) provided it meets compliance requirements. A DC public charter school is considered a Local Educational Agency under federal education programs. As a DC public charter school, the School enjoys significant freedom from the budget and operational restrictions placed on traditional public schools, allowing it to create a unique educational mission and approach.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School’s financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows Financial Standards Accounting Board (“FASB”) Accounting Standards Codification (“ASC”) Topic *Not-for-Profit-Entities*. In accordance with the topic, the School is required to report information regarding its financial position and activities according to three classes of net assets. Accordingly, the net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - continued

Basis of Presentation (continued)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the School and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the School. There were no permanently restricted net assets as of June 30, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the School considers all highly liquid debt instruments purchased with an original maturity date of less than three months to be cash equivalents.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment acquired are recorded at cost or, if donated, at the approximate fair value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are depreciated over the term of the lease while maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense when incurred. The School capitalized interest related to construction activities totaling \$32,967 for the year ending June 30, 2015 and reported it as a component of construction-in-progress in the statement of financial position.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Grants and Accounts Receivable

Grants and accounts receivable are recorded when billed or accrued and represents claims against third parties that will be settled in cash. Accounts receivable are reported net of the allowance for doubtful accounts, if any. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, the age of outstanding receivable and existing economic conditions. If actual experience changes, revisions to the allowance may be necessary. Past due accounts receivable are written off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2015 and 2014, the majority of the receivables are due from governmental agencies. Due to the nature of funding from the federal government and the District of Columbia, management believes that all receivables will be collected. Therefore, no allowance for doubtful accounts has been recorded.

Construction-in-Progress

During the current fiscal year, the School began construction for a new school building adjoining the current facilities. All costs related to the construction are accumulated as construction-in-progress until the building is ready for occupancy, after which these costs will be reclassified as buildings and will be depreciated over the useful life of the asset. Construction costs totaled \$6,414,231 for the year ending June 30, 2015.

Deferred Rent and Lease Incentives

The School records rent expense including incentives on a straight-line basis over the term of the lease. Deferred rent is recorded as the difference in the rent expense recognized on a straight-line basis and cash payments.

Deferred Revenue

Deferred revenue results from per pupil appropriated income received in the current fiscal year and deferred until the next fiscal year in which the service is provided.

Contributions and Grants

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When restrictions are met within the same year as restricted funds are contributed, they are classified as unrestricted contributions.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Activity Fee

Activity fees are recognized at the time of the activity. This revenue is amounts collected from students from, but not restricted to, field trips, camps and other school related activities.

Functional Expenses

The costs of providing the School's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs, fundraising and supporting services benefited.

Reclassifications

Certain amounts for the year ended June 30, 2014 have been reclassified to conform to the current year presentation. The reclassification had no effect on the previously reported net assets or change in net assets.

NOTE C – INCOME TAXES

The School is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the School is classified as an entity that is not a private foundation under Section 509(a)(1).

The School has adopted the accounting of uncertainty in income taxes as required by the *Income Taxes* topic of the FASB ASC. The topic requires the School to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is more than fifty percent likely of being realized upon ultimate settlement which could result in the School recording a tax liability that would reduce its net assets.

The School has analyzed its tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to any uncertain tax positions taken on returns filed for open tax years (2011-2013), or expected to be taken in its 2014 tax return. The School is not aware of any tax positions for which it believes that there is a reasonable possibility that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE D – NOTES PAYABLE

On May 4, 2015, the School secured three associated loans to finance construction and renovation of the School's new facility and payment of facility rent. These three loans comprised of \$24,075,000 with Bank of America ("BOA" Loan), \$2,000,000 with the District of Columbia's Office of Public Charter School Financing and Support ("OPCSFS" Loan), and \$2,500,000 with Building Hope, a District of Columbia nonprofit corporation ("Building Hope" Loan). The BOA Loan is senior to the OPCSFS and Building Hope Loan per the terms of the agreements. Draws must be in simultaneous and even amounts between the OPCSFS Loan and Building Hope Loan.

The terms of the BOA Loan require the OPCSFS Loan and Building Hope Loan to be drawn completely prior to drawing from the BOA Loan funds. The frequency of draws from the BOA Loan can be made no more than monthly. There were no draws from the BOA Loan during the year ended June 30, 2015 as the loans from OPCSFS and Building Hope were still being drawn down.

The OPCSFS Loan is for a term of three years with interest of 4.5% per annum. Interest only payments are due quarterly from October 1, 2015 through July 1, 2017. Thereafter, principal and interest payments are due quarterly based upon a 25 year amortization schedule. The balance outstanding on the loan as June 30, 2014 was \$2,000,000.

The Building Hope Loan is for a term of three years with interest of 6.0% per annum. Interest only payments are due quarterly from October 1, 2015 through July 1, 2017. Thereafter, principal and interest payments are due quarterly based upon a 25 year amortization schedule. The balance outstanding on the loan as June 30, 2014 was \$2,200,000.

The BOA Loan is collateralized by all real and personal property of the School. The collateral for the Building Hope Loan and OPCSFS Loan is a third trust on all leasehold mortgages, third trust on assignment of all leases and rents from the property, third trust on per pupil payments, facilities allowance and assignment of all management, construction and architectural contracts and plans.

The aforementioned loan agreements contain certain restricted, financial, and nonfinancial covenants. In the opinion of management, the School has complied with the required covenants.

After year end, the School has secured financing with the Reinvestment Fund, Inc. ("TRF" Loan) for \$4,800,000. The proceeds will be used for construction and improvements to School property. The collateral for the TRF Loan is set to be a second trust on all leasehold mortgages, second trust on assignment of all leases and rents from the property, second trust on per pupil payments, facilities allowance and assignment of all management, construction and architectural contracts and plans.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE D – NOTES PAYABLE - continued

Aggregate annual maturities of the debt are as follows for the years ending June 30:

2018	\$	62,403
2019		4,137,597
Total	\$	<u>4,200,000</u>

NOTE E – LEASE COMMITMENTS

The School’s lease agreement with the Charter School Incubator Initiative expired on June 30, 2015. There is no extension of this lease as the site now is under the School’s ownership so the lease is only for the operating services, as described below, that Building Hope will be covering during the transition period that goes from July 1, 2015 through December 31, 2015. In accordance with the terms of the lease, the School is required to pay a usage fee, or rent, determined with respect to the number of students enrolled. The total annual usage fee is equal to the number of students enrolled on each census date (every October) multiplied by the per pupil facilities allowance received by the School from the District of Columbia, less amounts withheld under the terms of the lease.

Accordingly, the School cannot reasonably estimate its future minimum lease liability under the terms of the lease; however, usage fees cannot exceed the facilities allowance received from the District of Columbia, a guaranteed funding source.

In August 2015 the School entered into a license agreement with the District of Columbia to occupy Mississippi Road School premises. This agreement expires on June 30, 2016. The School is required to pay a monthly license fee in the amount of \$20,148, and operating expense fee in the amount of \$4,614. The future minimum lease payment for the year ended June 30, 2016 is \$297,148.

Also, in August 2015, the School entered into a ground lease agreement with the District of Columbia to lease the property at Wahler Place for a period of 30 years beginning on the rent commencement date, which is the earlier of (a) completion date of tenant work or (b) eighteen months following lease commencement date. The annual base rent will be \$777,000 for the first year and will be increased by two percent on each anniversary thereafter. Rent will be abated for twelve consecutive calendar months for each one million dollars of expense incurred for construction, capital alteration and leasehold acquisition costs. Since construction at this site is still in process, the rent abatement amount cannot be determined as of this time, and therefore neither can the future minimum lease payments.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE E – LEASE COMMITMENTS - continued

Rent expense for the years ended June 30, 2015 and 2014 totaled \$1,212,997 and \$1,170,396, respectively.

NOTE F – COMMITMENTS AND CONTINGENT LIABILITIES

The School receives revenue from government grants and contracts that are subject to inspection and audit by the appropriate funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The school is of the opinion that disallowance, if any, arising from such audits will not have a material effect on the financial statements. The School has no provisions for the possible disallowance of program costs on its financial statements.

NOTE G – CONCENTRATION OF RISK

The School is supported primarily by local and federal appropriations and grants. For the years ended June 30, 2015 and 2014, 81% and 89%, respectively, of the total revenue was provided by one local government agency. Reduction of this source of support would have a significant impact on the School's programs and activities. Geographical area of clients served is Ward 8 of the District of Columbia. As of June 30, 2014 and 2013, the School had cash that exceeded federally insured limits by approximately \$3,400,000 and \$1,300,000, respectively. Management has evaluated the financial institutions and does not believe it is exposed to any significant credit risk.

NOTE H – AVERAGE COST PER STUDENT

For the years ended June 30, 2015 and 2014 the average cost per student was \$13,796 and \$16,098, respectively. This is calculated by dividing total noncapital expenditures, by the School's full-time student enrollment.

NOTE I – PENSION PLAN

The School sponsors a 401(K) Plan (the "Plan") for all employees who are at least 18 years of age. Eligible employees can become participants on the first day of the month following the completion of eligibility requirements. Employees may make elective deferral from their eligible earnings, up to the amount allowed by the Internal Revenue Service. The School matches the first three percent of a participant's compensation that is deferred as an elective deferral. For the years ended June 30, 2015 and 2014, pension expense totaled \$40,579 and \$33,953, respectively.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014
(continued)

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 and 2014, totaled \$123,000 and \$126,000, respectively, and were designated for the purpose of transportation and scholarships for the students of the Septima Clark Public Charter School which closed in 2013.

NOTE K – SUBSEQUENT EVENTS

As required by the *Subsequent Events* topic of the FASB ASC, the School has evaluated the impact on its financial statements and disclosure of certain transactions occurring subsequent to its year end through the date of the auditor's report, which is the date the School's financial statements were available to be issued. Management has determined that there are no subsequent events, other than that noted in Note D that requires disclosure pursuant to the subsequent event topic.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Achievement Preparatory Academy, Inc.
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Achievement Preparatory Academy, Inc., (a nonprofit organization), (the "School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jane Marusa & McQuade PA

Washington, DC
October 21, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board of Trustees of
Achievement Preparatory Academy, Inc.
Washington, DC

Report on Compliance for Each Major Federal Program

We have audited Achievement Preparatory Academy, Inc.'s (the School's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Achievement Preparatory Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Janet Marston & M. A. Deade PA

Washington, DC
October 21, 2015

ACHIEVEMENT PREPARATORY ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Education			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Title I-A Grants to Local Educational Agencies			
Phase 15	84.010	52010A	\$ 417,010
Improving Teacher Quality State Grants (Title II)			
Phase 15	84.027	52027A	129,991
Phase 15	84.367	52367A	107,452
DC School Choice Incentive Program:			
Increasing Academic Quality	84.370		222,672
Replication and Growth	84.370		100,000
Total U.S. Department of Education			<u>977,125</u>
U.S. Department of Agriculture - Food and Nutrition Service			
Pass Through from District of Columbia Office of the State Superintendent of Education (OSSE)			
Child Nutrition Cluster			
School Breakfast Program	10.553		73,539
National School Lunch Program	10.555		156,584
Total U.S. Department of Agriculture			<u>230,123</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,207,248</u>

See Independent Auditor's report and Notes to the Schedule of Expenditures of Federal Awards.

ACHIEVEMENT PREPARATORY ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the School under programs of the federal government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein, certain types of expenses are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**ACHIEVEMENT PREPARATORY ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report issued on the financial statements Unmodified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified that are not
considered to be material weakness? No

Noncompliance material to financial statements noted? No

Federal Awards

Type of auditor's report issued on compliance for
major programs: Unmodified

Internal control over major programs:

Material weakness identified? No

Significant deficiencies identified that are not
considered to be material weakness? No

Any audit findings disclosed that are required to be
reported under section 510(a) of Circular A-133? No

Major programs

Name of Federal Program: Title 1 Grants to local Education Agencies
CFDA Number 84.010

Name of Federal Program: DC School Choice Incentive Program
CFDA Number 84.370

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

ACHIEVEMENT PREPARATORY ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015
(continued)

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None

SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

None